

Honored Banking Committee Members, I appreciate you taking to time to allow me to advocate for H.B. No. 5973 REP. JOHNSON, 49th DIST. AN ACT ESTABLISHING A TASK FORCE TO STUDY THE CREATION OF A STATE-WIDE BANK IN CONNECTICUT.

And I realize some of you may know me as Connecticut's Advocate for Public Banking or as a recent Senatorial Candidate from Greenwich who ran on and helped raise awareness for a State-wide Public Bank of Connecticut.

As Advocate for Public Banking, I've studied the subject ad nauseum both domestically with the Bank of North Dakota and internationally with the Bayerische Landesbank (BayernLB) in Germany.

In fact, I've even put forth draft legislation for a state-wide Bank of Connecticut, which I'm including in draft form for reference by this committee, indicating exactly how a state-wide public Bank of Connecticut benefits its citizens and providing a blueprint for implementing it.

All the work has been done for you, all you have to do is stamp your name on it and take credit!

But let me take a step back and talk about an earlier public banking study that was done by the Banking Committee back in 2012.

And thanks to Rep Camillo who allowed me an opportunity to review the results of this study after discussing the benefits to Connecticut of Public Banking with him back then.

The earlier committee study essentially relied on one singular research report upon which it drew all its substantive conclusions.

That singular research report was the New England Public Policy Center (NEPPC) entitled "The Bank of North Dakota: A model for Massachusetts and other states?" dated May 2011 and sponsored by Federal Reserve Bank of Boston.

The earlier committee study, unfortunately, failed to consider the most important research report at the time entitled "Response to New England Public Policy Center Report: The Bank of North Dakota: A model for Massachusetts and other states?" from Dēmos and the Center for State Innovation.

The Dēmos report refutes the NEPPC report point-by-point on almost every one of the major conclusions and premises of "The Bank of North Dakota: A model for Massachusetts and other states?" showing it to be little more than a Fed sponsored "chloroform" report intended to kill MA HB 1192 of 1/20/2011 "An Act BANK OF MASSACHUSETTS." (By Ms. Khan of Newton, a petition (accompanied by bill, House, No. 1192) of Kay Khan, Ruth B. Balser and David Snieckus relative to creating the bank of Massachusetts. Financial Services.)

Now why the Fed considers a State Bank as anything other than a complement, not competitor, to its banking goals and a friend of its credit extension policies is beyond me.

But the objections raised for a state-wide Bank of Connecticut are as numerous and ill founded

as grains of sand that wash away from a sand castle on the beach.

“There’s No Need”

Reminds me of a quote, "if you're happy with [fill in the blank], you can keep it!" [Connecticut's economy]

But in every economic metric, Connecticut's worse than the only state with a public bank, North Dakota!

You name it; business costs, economic climate, infrastructure, regulatory environment, per capita tax burdens, unemployment rate, bank profitability, delinquent loans, foreclosure rate, income disparity, educational spending, and the list goes on

CT GDP growth: -0.1%

CT Unemployment rate (May 2013): 8%,

CT Top corporate rate: 9%

CT Top individual tax rate: 6.7%

Connecticut deserves more for its economy and citizens and can do better with a state-wide Public Bank of Connecticut!

“It Can't Work Here”

Like it can't work for 96 years in North Dakota or Canada or Australia or Switzerland or Germany or Brazil or India or China or etc.

Fact is there's nothing particularly special or magical about extending credit and banking in the public interest and the proof is that over 40% of the world does it every day!

Of course, the Bank of Connecticut can work here and it will!

“It’s too risky”

So, you mean investing our money w Wall St. banks is less risky? Really? You might be interested to know that in November 2014, the Wall Street Journal reported that the Bank of North Dakota (BND), the nation’s only state-owned bank, “is more profitable than Goldman Sachs Group Inc., has a better credit rating than J.P. Morgan Chase & Co. and hasn’t seen profit growth drop since 2003.”

"BND turns a tidy profit year after year because it has substantially lower costs and risks than private commercial banks. It has no exorbitantly-paid executives; pays no bonuses, fees, or commissions; has no private shareholders; and has low borrowing costs. It does not need to advertise for depositors (it has a captive deposit base in the state itself) or for borrowers (it is a wholesome wholesale bank that partners with local banks that have located borrowers). The BND also has no losses from derivative trades gone wrong. It engages in old-fashioned conservative banking and does not speculate in derivatives."

"It's unregulated."

False. Like the BND the Bank of Connecticut follows Connecticut's bank regulation agency, U S Treasury Office Comptroller of Currency, Federal Reserve System, Federal Home Loan Bank and the Industrial Commission.

The proposed Connecticut State Bank answers to a governing board and an advisory board as well as these other agencies.

"It would cost millions of dollars."

Not true! Many ways to initially capitalize a public bank w/o raising taxes or costing the taxpayer a dime! Here are some examples:

1. Direct State Appropriations from the General Fund, say ~\$100 Million -> leverages 10x = \$1 Billion.
2. State Allocations from the Reserve Fund, i.e. Rainy Day Fund, of ~\$50 Million -> leverages 10x = \$500 million.
3. State Allocations from the STIF accounts of ~\$5+ Billion -> leverages 10x = \$50 Billion.
4. State Allocations from the CAFR accounts of ~\$25+ Billion -> leverages 10x = \$250 Billion.
5. State Allocations from any combination of the individual 6 Retirement Funds ("Pensions") or 9 Trust Fund accounts of ~\$1 - 7+ Billion -> leverages 10x = \$10 to 70 Billion...OK i think we can now gap that 65 Billion unfunded liability gap bank
6. Monetization/Collateralization of State Assets ~\$10+ Billion -> leverages 10x = \$100 Billion.

The Bank of Connecticut starts with capitalization of \$100 Million and using tools like fractional reserve banking conservatively leverages this to \$1+ Billion during an initial period of growth. Creating a state-owned bank would cost Connecticut nothing, save taxpayers millions in annual debt service.

"Not Insured"

Not true! Firstly, the FDIC does not presently insure all Connecticut deposits in private banks. FDIC only insures the first \$250,000 of each domestic bank account but most private bank accounts are more than \$250,000.

Since the FDIC has only \$51 Billion Deposit Insurance Fund (DIF) w \$10,072 Billion of Insured Deposits Obligations with \$297,514 Billion in associated derivative bank notionals...how much is the \$51 Billion going to cover when the system massively fails?

Additionally, Connecticut has many foreign bank accounts and holds bonds and securities which are not FDIC insured.

Bottom line, a Bank of Connecticut is better insured with the \$11 Billion of Connecticut state net worth than FDIC with a leveraged insurance loss ratio of 5833x.

"A state-wide Bank of Connecticut competes with local community banks"

It completes or complements, but never competes with local community banks. The Bank of Connecticut seamlessly works with all front facing commercial, savings and loans, community banks, credit unions, etc. by

- participating in loans originated by with local banks, either by increasing the total loan size, buying down the interest rate, or providing loan guarantees,
- loaning to small businesses that create 67% of all new jobs and spur broader economic growth,
- helping in qualification and due diligence for private or public projects that benefit local communities and guaranteeing loans,
- strengthening local banks by purchasing loans originated from local banks to allow more loan origination on Main St.
- fostering loans to lower debt costs for state and local government projects and infrastructure.

"Business Credit Extension is Not an Issue"

Connecticut businesses have reported that they do not have access to capital. Public banking is about more than access to capital however. It is about reducing debt service payments, expanding liquidity in Connecticut so that the economy can be prosperous, and securing Connecticut capital against an insecure international financial system, etc.

"It would cause instability"

Just the opposite. Instability is caused when a financial system tries to extract more funds from the public than they currently have to give. The State Treasurer presently invests its cash in Wall St. megabanks and foreign banks, all of whom played a part in the 2008 meltdown involving "toxic derivatives" and currency speculations like Bank of America, BNP Paribas, Citigroup, Goldman-Sachs, HSBC, and JP Morgan. Fannie Mae and Freddy Mac collapsed in the 2008 crisis requiring a bail out by Congress. Connecticut still invests with and through these financial institutions.

A state-owned bank provides stability. It has done so in North Dakota whose economy was unscathed by the 2008 collapse because Bank of North Dakota provided financing when the financial sector imploded.

I could go on and on since I've heard just about every possible objection against a Public Bank of Connecticut, but let me just conclude by asking you something.

The State of Connecticut is facing a fiscal and economic problem like none before. We have \$65 Billion of unfunded liabilities and accumulated budget shortfalls of \$3.5 Billion by 2018! It's a banking problem and I'm offering a state-wide banking solution with all the benefits Connecticut needs right now w/o raising taxes or costing the taxpayers a single dime.

Now, I'd like you to do 3 things.

1. Commit to supporting your Public Bank of Connecticut with your "YES" vote today!
2. Then when you go home tonight, find the time to look your mother in the eye (or the photo of your mother hanging in the family room) and let her know you did the right thing for you and the family just as she would've wanted you to.
3. Then when you go to bed tonight and I'd like you to have the most peaceful and wonderful dream about Connecticut you've ever had, b/c whether you wake from your dream or a nightmare depends on how you vote today!

Let's all make Connecticut the wonderful dream it was meant to be with your " YES" vote today supporting your Public Bank of Connecticut!

Should you have any questions or require additional information, please don't hesitate to contact me by e-mail at [egheflin@egheflin.com](mailto:egheflin@egheflin.com) or by phone at 646.625.9565.

In the meantime, I wish you all the best with your business and if there is anything I can help you with, please do not hesitate to contact me.

Sincerely,

Edward G. Heflin, PhD

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## Appendix 1: Conservative Capitalization

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### Example 1

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Capital: \$20M from rainy day fund or bond issue x 3%  
interest

= \$.6M cost of capital  
Deposits: \$200M  
- \$20M reserve  
= \$180M  
x 0.3% interest  
= 0.54M cost of deposits  
\$180M invested in bonds earning 3%  
= \$5.4M profit  
- \$1.14M (cost of funds)  
Net profit: \$4.26M (21%)

### Example 2

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Projected ROE  
using pension funds @ 8%.  
Capital: \$20M from pension fund  
x 8%  
interest

= \$1.6M cost of capital  
Deposits: \$200M  
- \$20M reserve  
= \$180M  
x 0.3% interest  
= .54M cost of deposits  
Invested in bonds earning 3%  
= \$5.4M profit  
- \$2.14M (cost of funds)  
Net profit: \$3.26M (16.3%)

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Appendix 2: How does a CT Public Bank Return 1000% to Main St while the best Wall St can  
do is 0.16% in 10 Years!

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1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
2	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
3	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
4	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
5	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
6	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
7	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
8	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
9	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00		
10	\$ 10,000.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$
10.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$
1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00	\$ 10,100.00	
TOTAL 10 Yr Profit	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	
\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$
100.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$
10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 101,000.00	

(End) 10 Yrs later the CT Public Bank gives Main St \$101,000.00 and, best of all, complete accountability and traceability to 10 new CT business, and/or 17 new CT jobs, and/or 10 new residences, and/or 10 college loans, and/or improvement in education, 10 private or public infrastructure projects, 0 maintained roads, highways, etc...10 Leverage x EVERYTHING!

NB: Creating a better Connecticut is easier than you think!...Together, let's bring "Green" to Hartford and prosperity back to Connecticut through healthy local economies, new jobs, and new revenue for local infrastructure and public priorities via a Public Banking Platform with its comprehensive 4 E's solution : vibrant Economy, effective Education, empowered Energy that is Environmentally greener. !

Best of all, even secondary considerations of liquidity in banking are properly addressed, i.e. the necessary capitalization obligations of the CT Public Bank are exactly met by the cash flows and at the end of the first year (\$10,000) by the ROI capital of the CT Public Bank at the end of the first year (\$10,000) plus an additional interest (\$100)...now we're talking liquidity in banking!